

# PERAC AUDIT REPORT



## Shrewsbury Contributory Retirement System

JAN. 1, 2001 - DEC. 31, 2003 / PERAC 03: 11-082-28



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*

JOSEPH E. CONNARTON, *Executive Director*

HENRY G. BRAUER | KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

November 15, 2005

The Public Employee Retirement Administration Commission has completed an examination of the **Shrewsbury** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **2001** to December 31, **2003**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

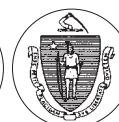
In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## Shrewsbury Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003**

##### **1. Meeting Minutes - Attendance**

A review of the minutes of the Board meetings showed that one of the board members had an absentee rate of over 27% for the three-year audit period. Over 25% is considered excessive.

##### **Recommendation:**

Board members are expected to attend all Board meetings. Members should make every effort to arrange their schedule so they can attend all meetings and, when possible, the Board should consider changing meeting times to accommodate Board members schedules.

##### **Board Response:**

The Board acknowledges that one board member was absent from monthly meetings as stated but feel his investment background and willingness to understand and apply Chapter 32 more than compensates for any absenteeism. Also, only the ex-officio member receives any compensation so the retirement system is not paying board members who do not attend the monthly meetings.

##### **2. Membership Deductions**

During the membership review it was determined that elective buybacks made by withholding funds from member's regular compensation were erroneously treated as 'pre-tax' deductions. Only mandatory deductions can be 'pre-tax' and all elective deductions must be 'post-tax'. PERAC memo's #23/2001 and #13/2002 discuss this issue.

##### **Recommendation:**

Any necessary changes must be made to the Town of Shrewsbury payroll system to ensure elective buyback deductions are treated 'post-tax'.

##### **Board Response:**

Regarding the elective buybacks made by payroll deduction be[ing] allowed on a pre-tax basis, the Board feels that since two other systems (Boston and Mass State Teachers') are allowed to do this, all retirement system members should have the same right. The Shrewsbury Retirement Board will be writing to the IRS on this issue rather than wait for the IRS response to PERAC mentioned in PERAC Memo #23/2001 and PERAC Memo #13/2002.

##### **Final Determination**

*PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.*

# Shrewsbury Retirement System

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2003**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
<b>ASSETS</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Cash	\$495,103	\$651,025	\$170,710
Short Term Investments	1,318,154	523,874	504,581
Fixed Income Securities (at book value)	0	0	14,817,591
Equities	10,714,520	7,117,684	8,174,046
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	16,704,606	9,183,305	11,713,754
Pooled International Equity Funds	0	0	0
Pooled Global Equity Funds	0	3,136,789	3,721,098
Pooled Domestic Fixed Income Funds	12,985,736	14,905,456	0
Pooled International Fixed Income Funds	1,610,216	1,353,928	1,151,092
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	0	0	0
Pooled Real Estate Funds	2,760,315	2,373,463	2,242,594
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	796	877	200,648
Accounts Receivable	153,661	2,504	190,563
Accounts Payable	(344,044)	(107,990)	(360,171)
<b>TOTAL</b>	<b><u>\$46,399,064</u></b>	<b><u>\$39,140,916</u></b>	<b><u>\$42,526,506</u></b>
<b>FUND BALANCES</b>			
Annuity Savings Fund	\$14,016,930	\$12,762,322	\$11,602,284
Annuity Reserve Fund	2,859,733	3,007,040	3,094,374
Pension Fund	6,155,825	1,374,697	2,575,594
Military Service Fund	2,502	0	0
Expense Fund	0	0	0
Pension Reserve Fund	23,364,073	21,996,857	25,254,255
<b>TOTAL</b>	<b><u>\$46,399,064</u></b>	<b><u>\$39,140,916</u></b>	<b><u>\$42,526,506</u></b>

## Shrewsbury Retirement System

### STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2003**

	<b>Annuity Savings Fund</b>	<b>Annuity Reserve Fund</b>	<b>Pension Fund</b>	<b>Military Service Fund</b>	<b>Expense Fund</b>	<b>Pension Reserve Fund</b>	<b>Total All Funds</b>
<b>Beginning Balance (2001)</b>	\$10,661,152	\$3,120,914	\$3,911,190	\$0	\$0	\$28,136,771	<b>\$45,830,026</b>
Receipts	1,613,984	90,902	1,528,863	0	294,620	(2,883,231)	<b>645,138</b>
Interfund Transfers	(270,934)	270,219	0	0	0	715	<b>0</b>
Disbursements	(401,918)	(387,661)	(2,864,459)	<u>0</u>	(294,620)	<u>0</u>	<b>(3,948,658)</b>
<b>Ending Balance (2001)</b>	<b>11,602,284</b>	<b>3,094,374</b>	<b>2,575,594</b>	<b>0</b>	<b>0</b>	<b>25,254,255</b>	<b>42,526,506</b>
Receipts	1,750,452	90,191	1,831,077	0	299,595	(3,257,398)	<b>713,915</b>
Interfund Transfers	(242,197)	242,197	0	0	0	0	<b>0</b>
Disbursements	(348,217)	(419,722)	(3,031,973)	<u>0</u>	(299,595)	<u>0</u>	<b>(4,099,506)</b>
<b>Ending Balance (2002)</b>	<b>12,762,322</b>	<b>3,007,040</b>	<b>1,374,697</b>	<b>0</b>	<b>0</b>	<b>21,996,857</b>	<b>39,140,916</b>
Receipts	1,744,048	87,851	1,825,979	2,502	311,855	7,575,599	<b>11,547,834</b>
Interfund Transfers	(177,155)	176,768	6,208,770	0	0	(6,208,382)	<b>0</b>
Disbursements	(312,284)	(411,925)	(3,253,621)	<u>0</u>	(311,855)	<u>0</u>	<b>(4,289,686)</b>
<b>Ending Balance (2003)</b>	<b><u>\$14,016,930</u></b>	<b><u>\$2,859,733</u></b>	<b><u>\$6,155,825</u></b>	<b><u>\$2,502</u></b>	<b><u>\$0</u></b>	<b><u>\$23,364,073</u></b>	<b><u>\$46,399,064</u></b>

# Shrewsbury Retirement System

## STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2003**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Annuity Savings Fund:</b>			
Members Deductions	\$1,461,211	\$1,383,888	\$1,259,855
Transfers from other Systems	124,563	179,158	142,456
Member Make Up Payments and Redeposits	32,930	27,671	14,862
Investment Income Credited to Member Accounts	<u>125,344</u>	<u>159,733</u>	<u>196,810</u>
<b>Sub Total</b>	<b><u>1,744,048</u></b>	<b><u>1,750,452</u></b>	<b><u>1,613,984</u></b>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited Annuity Reserve Fund	<u>87,851</u>	<u>90,191</u>	<u>90,902</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	76,018	58,801	54,258
Received from Commonwealth for COLA and Survivor Benefits	200,815	228,114	233,949
Pension Fund Appropriation	<u>1,549,146</u>	<u>1,544,161</u>	<u>1,240,656</u>
<b>Sub Total</b>	<b><u>1,825,979</u></b>	<b><u>1,831,077</u></b>	<b><u>1,528,863</u></b>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	2,502	0	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>2,502</u></b>	<b><u>0</u></b>	<b><u>0</u></b>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>311,855</u>	<u>299,595</u>	<u>294,620</u>
<b>Sub Total</b>	<b><u>311,855</u></b>	<b><u>299,595</u></b>	<b><u>294,620</u></b>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	22,016	14,431	0
Pension Reserve Appropriation	500,000	0	0
Interest Not Refunded	4,135	4,396	5,066
Excess Investment Income	<u>7,049,448</u>	<u>(3,276,225)</u>	<u>(2,888,297)</u>
<b>Sub Total</b>	<b><u>7,575,599</u></b>	<b><u>(3,257,398)</u></b>	<b><u>(2,883,231)</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$11,547,834</u></b>	<b><u>\$713,915</u></b>	<b><u>\$645,138</u></b>

# Shrewsbury Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2003**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$149,118	\$135,687	\$85,401
Transfers to other Systems	<u>163,166</u>	<u>212,529</u>	<u>316,517</u>
<b>Sub Total</b>	<b><u>312,284</u></b>	<b><u>348,217</u></b>	<b><u>401,918</u></b>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	411,925	398,436	379,332
Option B Refunds	<u>0</u>	<u>21,286</u>	<u>8,330</u>
<b>Sub Total</b>	<b><u>411,925</u></b>	<b><u>419,722</u></b>	<b><u>387,661</u></b>
<b>Pension Fund:</b>			
Pensions Paid			
Regular Pension Payments	2,122,041	2,094,786	2,028,049
Survivorship Payments	68,187	66,280	69,112
Ordinary Disability Payments	37,234	36,238	36,734
Accidental Disability Payments	653,876	552,169	475,566
Accidental Death Payments	198,403	150,871	159,060
Section 101 Benefits	19,721	31,241	13,589
3 (8) (c) Reimbursements to Other Systems	154,159	100,387	82,348
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>3,253,621</u></b>	<b><u>3,031,973</u></b>	<b><u>2,864,459</u></b>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	3,000	3,000	3,000
Salaries	36,956	36,340	34,231
Legal Expenses	1,118	3,174	3,775
Medical Expenses	0	150	0
Travel Expenses	4,890	5,182	3,611
Administrative Expenses	11,806	17,824	9,953
Furniture and Equipment	0	0	920
Management Fees	192,416	177,041	181,866
Custodial Fees	41,669	36,884	37,263
Consultant Fees	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
<b>Sub Total</b>	<b><u>311,855</u></b>	<b><u>299,595</u></b>	<b><u>294,620</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$4,289,686</u></b>	<b><u>\$4,099,506</u></b>	<b><u>\$3,948,658</u></b>



# Shrewsbury Retirement System

## INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2003**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Investment Income Received From:</b>			
Cash	\$2,048	\$2,779	\$3,863
Short Term Investments	4,875	11,171	34,292
Fixed Income	0	384,976	1,275,452
Equities	130,954	107,742	68,245
Pooled or Mutual Funds	<u>339,369</u>	<u>279,938</u>	<u>292,123</u>
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL INVESTMENT INCOME</b>	<b><u>477,246</u></b>	<b><u>786,607</u></b>	<b><u>1,673,975</u></b>
<b>Plus:</b>			
Realized Gains	1,068,057	142,121	452,837
Unrealized Gains	7,784,330	3,917,742	9,988,793
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>796</u>	<u>877</u>	<u>200,648</u>
<b>Sub Total</b>	<b><u>8,853,183</u></b>	<b><u>4,060,740</u></b>	<b><u>10,642,277</u></b>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	0	(48,031)	(166,065)
Realized Loss	(358,635)	(936,562)	(1,859,349)
Unrealized Loss	(1,396,420)	(6,388,813)	(12,331,625)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(877)</u>	<u>(200,648)</u>	<u>(265,179)</u>
<b>Sub Total</b>	<b><u>(1,755,932)</u></b>	<b><u>(7,574,053)</u></b>	<b><u>(14,622,217)</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>7,574,498</u></b>	<b><u>(2,726,706)</u></b>	<b><u>(2,305,965)</u></b>
<b>Income Required:</b>			
Annuity Savings Fund	125,344	159,733	196,810
Annuity Reserve Fund	87,851	90,191	90,902
Military Service Fund	0	0	0
Expense Fund	<u>311,855</u>	<u>299,595</u>	<u>294,620</u>
<b>TOTAL INCOME REQUIRED</b>	<b><u>525,050</u></b>	<b><u>549,519</u></b>	<b><u>582,331</u></b>
Net Investment Income	<u>7,574,498</u>	<u>(2,726,706)</u>	<u>(2,305,965)</u>
Less: Total Income Required	<u>525,050</u>	<u>549,519</u>	<u>582,331</u>
<b>EXCESS INCOME TO THE PENSION RESERVE FUND</b>	<b><u>\$7,049,448</u></b>	<b><u>(\$3,276,225)</u></b>	<b><u>(\$2,888,297)</u></b>

## **SHREWSBURY Retirement System**

### **STATEMENT OF ALLOCATION OF INVESTMENTS OWNED**

(percentages by category)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003**

	<b>MARKET VALUE</b>	<b>PERCENTAGE OF TOTAL ASSETS</b>	<b>PERCENTAGE ALLOWED*</b>
Cash	\$495,103	1.06%	100
Short Term	1,318,154	2.83%	100
Fixed Income	0	0.00%	40 - 80
Equities	10,714,520	23.00%	40
Pooled Short Term Funds	0	0.00%	
Pooled Domestic Equity Funds	16,704,606	35.86%	
Pooled International Equity Funds	0	0.00%	
Pooled Global Equity Funds	0	0.00%	
Pooled Domestic Fixed Income Funds	12,985,736	27.87%	
Pooled International Fixed Income Funds	1,610,216	3.46%	
Pooled Global Fixed Income Funds	0	0.00%	
Pooled Alternative Investment Funds	0	0.00%	
Pooled Real Estate Funds	2,760,315	5.92%	
Pooled Domestic Balanced Funds	0	0.00%	
Pooled International Balanced Funds	0	0.00%	
PRIT Cash Fund	0	0.00%	
PRIT Core Fund	<u>0</u>	<u>0.00%</u>	100
<b>GRAND TOTALS</b>	<b><u>\$46,588,650</u></b>	<b><u>100.00%</u></b>	

For the year ending December 31, **2003**, the rate of return for the investments of the **Shrewsbury Retirement System** was 19.97%. For the five-year period ending December 31, **2003**, the rate of return for the investments of the **Shrewsbury Retirement System** averaged 4.60%. For the 19-year period ending December 31, **2003**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Shrewsbury Retirement System** was 11.09%.

## **Shrewsbury Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003**

The **Shrewsbury** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

July 29, 1993

- 16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Expenses for investment management and consulting services may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:
- (a) 1% of the value of the fund for the first \$5 million; and
  - (b) 0.5% of the value of the fund in excess of \$5 million.
- 16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

January 27, 1994

- 20.03(1) Equity investments shall not exceed 40% of the portfolio valued at market, including international equities, which shall not exceed 5% of the portfolio valued at market.
- 20.04(1) United States based corporations and equities of foreign corporations.
- 20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

November 7, 1994

- 20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including international fixed income investments which shall not exceed 10% of the total portfolio valued at market.
- 20.04(6) The board may invest in obligations issued by foreign corporations and in obligations issued and guaranteed by foreign governments.

April 8, 2002

- 16.08 In accordance with Investment Guideline 99-2, the Shrewsbury Retirement Board is authorized to modify its domestic fixed income mandate with Income Research & Management from a separate account structure to a commingled fund, the IR&M Core Bond Fund. This change is intended to achieve operational efficiencies and involves no change in investment strategy.

## **Shrewsbury Retirement System**

### **NOTES TO FINANCIAL STATEMENTS**

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003**

#### **NOTE 1 - THE SYSTEM**

The plan is a contributory defined benefit plan covering all **Shrewsbury Retirement System** member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

## **Shrewsbury Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003**

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

## Shrewsbury Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003**

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

#### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Shrewsbury** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

January 29, 1988

Retirement Board:

Three (3) members as designated by G.L. c. 32, s.20.

Staff:

Executive Secretary

Staff Salary:

Determined by vote of the board - in accordance with town salary schedule.

## **Shrewsbury Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003**

##### **NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)**

**Staff Benefits:**

Determined by vote of the board, in accordance with but not limited to the Personnel Bylaw.

**Staff Hiring:**

Determined by vote of board after interviews.

**Chairman of Retirement Board:**

Conduct all meetings, disseminate information from board. Poll board members for a vote on important disclosures if deemed necessary.

**Board Policy:**

Board shall perform within the disclosures law and open meeting law of the Commonwealth.

**Ex-Officio Member:**

Administer retirement office and be available to confer with executive secretary on important operations of this office.

**Executive Secretary:**

Administer office; maintain the rules and regulations of retirement board and Chapter 32.

**Meetings:**

Second Tuesday of month; board may make changes.

**Membership Eligibility:**

In accordance with Chapter 32, section 3.

Part-time employees - any part-time employee who works twenty (20) or more hours for a period of six months shall become a member of the system after said six months of continuous employment is completed. These part-time employees shall then have the privilege of purchasing this past service.

**Creditable Service:**

In accordance with G.L. c. 32, part-time employees - any members who are designated part-time shall be credited for service based upon the number of hours worked during the year.

Example: an employee who works twenty (20) hours a week for fifty-two (52) weeks would be credited with six (6) months of service.

**CETA Employees:**

Members may purchase their CETA employment time with creditable service pro-rated based upon the actual hours worked.

# Shrewsbury Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003**

#### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

September 20, 1990

**BUY BACK OF PRIOR SERVICE** - The length of creditable service an individual will be eligible to buy back will be equal to actual time worked.

May 22, 1991

**“PART-TIME EMPLOYEES** - Effective 7/1/91. Any part-time employee who works 20 hours or more per week shall become a member of the retirement system.”

November 29, 1994

**1. Creditable Service: Part-Time Employees:**

Members designated as part-time employees (those who work less than 37 1/2 hours per week) shall be granted creditable service according to the following:

<u>Hours per week</u>	<u>Creditable Service</u>
20 but less than 22.5	7 months
22.5 but less than 25.5	8 months
25.5 but less than 28.5	9 months
28.5 but less than 32	10 months
32 but less than 35	11 months
35 +	12 months

**2. Creditable Service:**

Any member whose hours per week are reduced below 20 shall be granted creditable service at the 20 hour per week level.

**3. Staff: Executive Director**

**4. Ex-Officio Member:** Administer Retirement Office and be available to confer with the Executive Director on important operations of this office.

**5. Executive Director:** Administer Retirement Office; Maintain the rules and regulations of Retirement Board and Chapter 32.

**6. Meetings:** 2nd Wednesday of month; Changes may be made by the Board.

August 2, 2002

**Service Liability Service Liability** – No liability for service will be accepted for service with the Town of Shrewsbury which did not entitle the employee to membership in the Shrewsbury Retirement System (worked under 20 hours per week on a permanent basis) unless the employee subsequently becomes a member of the Shrewsbury Retirement System purchases said service while employed by the Town of Shrewsbury.



## Shrewsbury Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### **FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003**

##### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Mary E. Thompson

Appointed Member: Jay Montgomery                      Term Expires: 07/01/06

Elected Member: Kevin McNeil                      Term Expires: 12/05/06

Elected Member: Ann Dagle                      Term Expires: 12/06/04

Appointed Member: Caryn Shea                      Term Expires: 12/23/05

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex officio Member:	)	\$30,000,000/\$1,000,000
Elected Member:	)	MACRS Policy
Appointed Member:	)	
Staff Employee:	)	

# Shrewsbury Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003**

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Mellon** as of **January 1, 2004**.

The actuarial liability for active members was	\$36,686,777
The actuarial liability for retired members was	<u>28,589,775</u>
The total actuarial liability was	<b>65,276,552</b>
System assets as of that date were (actuarial value)	<u>50,857,118</u>
The unfunded actuarial liability was	<b><u>\$14,419,434</u></b>
 The ratio of system's assets to total actuarial liability was	 77.9%
As of that date the total covered employee payroll was	\$17,995,844

The normal cost for employees on that date was 8.00% of payroll

The normal cost for the employer was 4.50% of payroll

The principal actuarial assumptions used in the valuation are as follows:

**Investment Return:** 8.50% per annum

**Rate of Salary Increase:** 5.50% per annum

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2004	\$50,857,118	\$65,276,552	\$14,419,434	77.9%	\$17,994,844	80.13%
1/1/2002	46,779,157	59,312,723	12,533,566	78.9%	16,773,825	74.72%
1/1/2000	48,071,979	49,486,969	1,414,990	97.1%	14,064,649	10.06%

## Shrewsbury Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003**

#### NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Superannuation	14	8	9	8	8	5	10	4	5	2
Ordinary Disability	0	0	0	0	0	1	0	0	0	0
Accidental Disability	1	0	0	2	2	1	0	0	1	1
<b>Total Retirements</b>	<b>15</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>7</b>	<b>10</b>	<b>4</b>	<b>6</b>	<b>3</b>
 Total Retirees, Beneficiaries and Survivors	 235	 237	 248	 244	 249	 247	 247	 239	 231	 228
 Total Active Members	 382	 398	 416	 451	 468	 482	 535	 546	 466	 489
 <b>Pension Payments</b>										
Superannuation	\$1,283,594	\$1,329,251	\$1,382,096	\$1,468,279	\$1,613,552	\$1,667,717	\$1,925,207	\$2,028,049	\$2,094,786	\$2,122,041
Survivor/Beneficiary Payments	53,556	58,824	61,272	69,919	83,132	78,268	73,927	69,112	66,280	68,187
Ordinary Disability	61,290	62,095	62,365	63,713	56,195	48,968	41,094	36,734	36,238	37,234
Accidental Disability	369,163	361,796	360,736	392,387	405,185	506,190	502,345	475,566	552,169	653,876
Other	<u>211,072</u>	<u>203,722</u>	<u>198,188</u>	<u>210,774</u>	<u>222,441</u>	<u>227,201</u>	<u>242,000</u>	<u>254,997</u>	<u>282,500</u>	<u>372,282</u>
<b>Total Payments for Year</b>	<b><u>\$1,978,675</u></b>	<b><u>\$2,015,688</u></b>	<b><u>\$2,064,657</u></b>	<b><u>\$2,205,072</u></b>	<b><u>\$2,380,505</u></b>	<b><u>\$2,528,344</u></b>	<b><u>\$2,784,573</u></b>	<b><u>\$2,864,459</u></b>	<b><u>\$3,031,973</u></b>	<b><u>\$3,253,621</u></b>

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